



Jean Ross
Testimony to the
California Performance Review Commission
September 27, 2004

Thank you for the opportunity to testify this morning. Your task is an important, but daunting one. We generally support the goals of functional integration and administrative consolidation outlined in the California Performance Review (CPR). While these are important goals, the single most important criteria for whether change is good should be whether it contributes to an improvement of the delivery of services at the program level. This should be the standard against which all of the proposed changes are measured.

As with most everything in public policy, the devil is in the details. With respect to the proposed department structure, there are both positives and negatives. First, consolidation – if done well and led well – can break down silos and encourage collaboration. On the downside, the sheer magnitude of the scope of several of the proposed agencies could result in a loss of focus and mission, particularly when relatively small functions are subsumed within larger organizations. In many instances, the CPR lacks sufficient detail to permit real evaluation or informed comment.

I would like to start with several basic themes and come back to some specifics:

- **Be wary of the unintended consequences of change.** Reorganization can – purposefully or inadvertently – change the mission of an agency. In some instances, this may be desirable, but the process of organizational change needs to be undertaken deliberately so that when mission change occurs it is deliberate.
- **Don't underestimate the upheaval and cost associated with organizational change.** Change costs time and money, and disrupts the delivery of services. We seriously question whether the basic systems of state government – finance, purchasing, personnel, and others – are equipped to process the sheer volume of work associated with a reorganization of the magnitude proposed in the CPR. This is particularly true in light of the recent budget reductions that have taken a toll on staffing and leadership in many agencies and departments.
- **Bigger is not always better.** Large agencies can lose clarity of mission and focus, resulting in diminished accessibility of key decision-making staff, and in small but important functions getting lost within a broader agency. Through our work in a variety of policy areas ranging from housing to economic development to public health, we have found that the “customers” of state services often deeply value the expertise and services provided by small departments, boards, and commissions that would be swallowed up in the proposed reorganization. In the area of housing, for example, lenders, developers, and others in the

business of producing affordable housing fear that housing would lose visibility in an agency charged with overseeing all of the state's infrastructure needs. Another example would be the consolidation of child support collections within a Division of Social Services within a larger Health and Human Services Department. The state's performance has improved significantly since the creation of a stand alone department with a clear focus and well-defined mission.

- **Evaluate whether the promised savings and/or revenue increases in the CPR are real.** In many cases, the savings and new revenues appear questionable. In particular, there is no recognition of the costs of organizational restructuring that would be substantial in an entity as large as state government. These range from things as mundane as reprinting letterhead and businesses cards and rewiring telephones to the integration of major technology systems.

What do we recommend?

- **Explore alternatives for achieving functional integration.** There are connections between nearly everything the state does and if you take functional integration to its extreme, you would end up with one mega-agency. Interagency and interdepartmental working groups coordinated by the Governor's Office can open avenues of communication and ensure collaboration without the downside of a massive restructuring of state government. We have previously recommended the establishment of functional budgeting, in addition to the present agency and departmental budgets, to provide policymakers and the public with a more comprehensive perspective on state budget and policy priorities.
- **Don't lose some of what is best in California government.** I am not here to defend all of the boards and commissions proposed for elimination. However, many of these bodies play a critical role in ensuring that decision-making occurs in the sunshine; providing a structured mechanism for bringing a diversity of perspectives to important regulatory and policy issues; and finally for tapping into technical expertise beyond the confines of state government. Many, if not most, commissioners – especially those who receive minimal “per meeting” stipends -provide value to the state far in excess of the compensation they receive.
- **Don't mix restructuring and policy change.** There is a lot of good in the CPR's recommendations, both in terms of restructuring and in terms of policy change. There is also a lot that we believe should be (and often has been previously) rejected. Issues of reorganization – which have a very specific process for consideration by the Legislature – should be considered separately from issues and recommendations that are strictly of a policy nature, such as reinstatement of the Manufacturers' Tax Credit, changing the kindergarten start date, or elimination of the Property Tax Assistance program.
- **Break down the process of reorganization into manageable pieces that can be thoughtfully and thoroughly considered by lawmakers and the public.** Since the “up or down” vote rules that apply to legislative consideration of a reorganization preclude the ability to modify a proposed plan, a forum for more thorough and thoughtful review is needed. This could involve a series of legislative hearings designed to provide additional time for public comment, as well as a forum for identifying how to improve and reach

consensus on issues of reorganization. With respect to some of the specifics, we believe that:

- There is merit in the proposed Office of Management and Budget, but that the scope outlined in the CPR may be too broad, particularly the integration of the Public Employees' and State Teachers' Retirement Systems.
- Some consolidation of tax administration is a good thing, but the current proposal goes in the wrong direction. Most would agree that the Franchise Tax Board (FTB) represents much of what is best and innovative in state government. The FTB should provide the surviving framework that could incorporate the tax responsibilities currently housed within the Employment Development Department (EDD) and that consideration should be given to shifting the non-constitutional duties of the Board of Equalization (BOE) to the FTB.

Thank you again for the opportunity to appear today. We look forward to working with the Commission and the Administration as this process moves forward.